

Message Text

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SUBJ: AUSTRIAN ECONOMIC PROSPECTS AT MID-YEAR

REF: A) VIENNA 5975; B) VIENNA 3171

1. SUMMARY

ONE EVE OF SUMMER HOLIDAY PERIOD, AUSTRIAN ECONOMY REMAINS SLACK AND MOOD OF COUNTRY IS ONE OF INCREASING CONCERN ABOUT PROSPECTS FOR REMAINDER OF THIS YEAR AND NEXT. CLOSING DAYS OF PARLIAMENTARY DEBATE BEFORE SUMMER RECESS LARGELY DEVOTED TO ECONOMY WITH SOCIALISTS CLAIMING THAT ECONOMIC SITUATION STILL ESSENTIALLY SOUND AND IN ANY EVENT BETTER THAN THAT OF MANY OECD COUNTRIES. OPPOSITION PEOPLES' PARTY ATTACKED KREISKY GOVERNMENT'S ALLEGED MISMANAGEMENT OF ECONOMY AND CALLED FOR A THREE-PARTY QUOTE CONCENTRATION GOVERNMENT UNQUOTE TO DEAL WITH COUNTRY'S ECONOMIC PROBLEMS AFTER ELECTIONS IN OCTOBER (REF A).

BOTH INVESTMENT AND CONSUMPTION IN SPITE OF STIMULATIVE ATTEMPTS REMAIN AT DISAPPOINTINGLY LOW LEVELS, PLANTS

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IN GENERAL ARE WORKING CONSIDERABLY BELOW CAPACITY

LEVELS, AND REAL GNP GROWTH THIS YEAR PROBABLY WILL NOT EXCEED ONE PERCENT, IF THAT. END SUMMARY

2. IN CLOSING DAYS OF FINAL SESSION BEFORE FALL ELECTIONS, AUSTRIAN PARLIAMENT WAS SCENE OF EXTENSIVE ECONOMIC DEBATE. KREISKY CABINET PREDICTABLY CLAIMED THAT ECONOMY DOING SURPRISINGLY WELL IN RELATION TO OTHER OECD ECONOMIES, DEFENDED RECORD DEFICITS AS CLASSICAL KEYNESIAN APPROACH, AND STRESSED ITS DEDICATION TO FULL EMPLOYMENT AS PRIORITY GOAL. FINANCE MINISTER ANDROSCH ANNOUNCED THAT IN ADDITION TO 12 BILLION SCHILLING INJECTION INTO ECONOMY LAST SPRING (REF B), A SUPPLEMENTAL PROGRAM OF EXPENDITURES AMOUNTING TO 4.4 BILLION SCHILLINGS WILL BE PUMPED INTO THE ECONOMY THIS FALL. GOVERNMENT ALSO ANNOUNCED INTENTION TO PROVIDE ADDITIONAL STIMULUS TO EXPORTS, PARTICULARLY TO EAST BLOC AND THIRD WORLD COUNTRIES.

3. OPPOSITION PEOPLES' PARTY BLAMED GOVERNMENT FOR CONTINUED INFLATION, WEAKENING EMPLOYMENT SITUATION, RECORD BUDGET DEFICITS AND NEAR ZERO GROWTH. TO DEAL WITH ECONOMIC SITUATION PEOPLES' PARTY CALLED FOR A QUOTE CONCENTRATION GOVERNMENT UNQUOTE OF ALL THREE POLITICAL PARTIES REPRESENTED IN PARLIAMENT, INCLUDING SOCIALISTS, PEOPLES' PARTY AND SMALL FREEDOM PARTY. PEOPLES' PARTY SPOKESMAN CLAIMED THAT UNDER SUCH A GOVERNMENT, THE AUSTRIAN QUOTE SOCIAL PARTNERSHIP UNQUOTE OF THE MAJOR INTEREST GROUPS WOULD BE STRENGTHENED AND SOUND BASIS THUS LAID FOR DEALING WITH ECONOMIC SITUATION AND ENSURING WAGE AND PRICE RESTRAINT.

4. AUSTRIAN ECONOMIC PROJECTIONS CONTINUE TO BE REVISED DOWNWARD. LATEST ESTIMATES FOR 1975 AS ISSUED BY AUSTRIAN INSTITUTE FOR ECONOMIC RESEARCH ARE AS FOLLOWS: REAL GNP PLUS 1 PERCENT (AFTER 4.4 PERCENT IN 1974); PRIVATE CONSUMPTION PLUS 4 PERCENT; PUBLIC CONSUMPTION PLUS 3 PERCENT; GROSS INVESTMENT MINUS 1 PERCENT; COMMODITY EXPORTS MINUS 2 PERCENT; COMMODITY IMPORTS MINUS 1.5 PERCENT; INDUSTRIAL PRODUCTION MINUS 1 PERCENT; UNEMPLOYMENT RATE 2.3 PERCENT; CONSUMER PRICES PLUS 8.5 PERCENT; NET INCOMES PLUS 14 PERCENT; PAYROLLS PLUS 12.5 PERCENT. TOURISM EXPECTED TO DO BETTER WITH A UNCLASSIFIED

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13.5 PERCENT INCREASE IN FOREIGN TOURIST RECEIPTS. MOOD OF UNCERTAINTY AND CONCERN FOR FUTURE JOB SECURITY IS REFLECTED IN HIGH LEVEL OF SAVINGS AND LOW LEVEL OF CONSUMPTION. ALSO, LATEST SURVEY SHOWS FURTHER DETERIORATION OF INVESTMENT INTENTIONS. INCREASING NUMBER OF ENTREPRENEURS NOW DO NOT EXPECT REVIVAL BEFORE MID-1976. INSTITUTE CONFIRMS THAT PRESENT AMPLE SUPPLY OF CREDIT AND LOWER CREDIT COSTS HAVE NOT PROVIDED SUFFICIENT INVEST-

MENT INCENTIVE THUS FAR, AS EVIDENCED BY POOR ORDER BOOKS, HIGH LEVEL OF IDLE CAPACITY IN INDUSTRY AND PESSIMISTIC EXPECTATIONS REGARDING EARNINGS. ON THE OTHER HAND, THERE IS HOPE IN SOME CIRCLES, ESPECIALLY IN LARGE BANKS, THAT PROGRAM OF BLENDED CREDITS (PRIVATE, GOVERNMENT, AND ERP FUNDS) AT INTEREST BELOW NORMAL MARKET RATE WILL HAVE FAVORABLE DOMESTIC IMPACT IN LATTER PART OF 1975.

5. ECONOMIC DEVELOPMENTS ABROAD, AS ALWAYS, PLAY CRITICAL ROLE IN AUSTRIAN ECONOMIC FORECASTS. CONTINUED SLUGGISHNESS IN ALL-IMPORTANT GERMAN ECONOMY TROUBLES AUSTRIANS AND REINFORCES PSYCHOLOGICAL MOOD OF CONCERN. AUSTRIANS ALSO EYING U.S. ECONOMIC SCENE CAREFULLY. DEFINITE UPSWING IN U.S. WOULD HAVE VERY FAVORABLE PSYCHOLOGICAL IMPACT ON AUSTRIAN ECONOMY, IT IS WIDELY BELIEVED HERE.

6. BETWEEN NOW AND OCTOBER ELECTION, SOCIALIST GOVERNMENT CAN BE EXPECTED TO DO ITS BEST TO MINIMIZE POOR INDICATORS, AND WILL CONSTANTLY REITERATE CLAIM THAT AUSTRIAN ECONOMY RELATIVELY BETTER OFF THAN MANY. ABOVE ALL, SOCIALIST WILL HIGHLIGHT THEIR DETERMINATION TO MAINTAIN FULL EMPLOYMENT, WHATEVER THE COST. IT IS GENERAL CONSENSUS THAT WHATEVER KIND OF GOVERNMENT EMERGES AFTER FALL ELECTIONS, IT WILL BE FACED WITH HARD ECONOMIC DECISIONS SHOULD CURRENT TRENDS CONTINUE AND IF SITUATION ABROAD, PARTICULARLY IN GERMANY, DOES NOT IMPROVE IN LATTER MONTHS OF THIS YEAR.

7. SINCE MAJOR ECONOMIC DECISIONS IN AUSTRIA ARE MADE WITHIN THE QUOTE SOCIAL PARTNERSHIP UNQUOTE OF MAJOR INTEREST GROUPS (MANAGEMENT, UNIONS, AGRICULTURE), IT IS WIDELY BELIEVED THAT AUSTRIAN ECONOMY WILL BE IN A GOOD POSITION TO DEAL WITH ITS ECONOMIC DIFFICULTIES. CONSENSUS AMONG MAJOR GROUPS RATHER THAN CONFRONTATION HAS BEEN LARGE ELEMENT IN AUSTRIAN ECONOMIC SUCCESS IN PAST DECADE AND HAS KEPT COUNTRY FREE OF STRIKES.

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CULTURE, GOVERNMENT) IMPORTANT FACTOR WILL BE HOW STRONG THE SOCIAL PARTNERSHIP REMAINS AFTER STRESSES AND STRAINS OF ELECTION CAMPAIGN. CONSENSUS IS THAT SOCIAL PARTNERSHIP WILL EMERGE INTACT. IF SO, AUSTRIA WILL BE IN A GOOD POSITION TO DEAL WITH ITS ECONOMIC DIFFICULTIES. CONSENSUS AMONG MAJOR GROUPS RATHER THAN CONFRONTATION HAS BEEN LARGE ELEMENT IN AUSTRIAN ECONOMIC SUCCESS IN PAST DECADE AND HAS KEPT COUNTRY FREE OF STRIKES.

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